Doing It Right

- Transforming Our Business
- Leading in a Competitive Market
- Enhancing Our Workplace, Our Environment and Our Community

toronto hydro corporation

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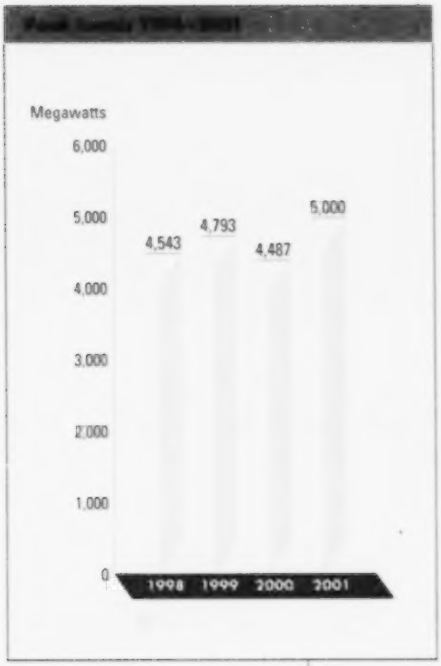
Corporate Profile **Toronto Hydro Corporation** operates four wholly owned affiliates that carry on the businesses of electricity distribution, retail energy sales and services, telecommunications and street lighting. To meet the challenges of the new competitive market, the Corporation focussed its efforts in 2001 on market readiness and transforming our business - **Doing It Right** in our company, and in our community. We continue to be a strong supporter of Ontario's energy market restructuring and intend to be a leading player as the market completes its transition through 2002 and beyond. We are also proud promoters of clean and green energy initiatives, enhancing our environment and encouraging energy conservation. By delivering safe and reliable electricity to homes and businesses across Toronto, we are meeting our customer service promise. We are committed to creating an energy marketplace that works for everyone.

Front cover photos: *Upper:* **Ron Levesque**, Toronto Hydro-Electric System Limited's Distribution Projects crew. *Centre:* **Josephine Pernarella**, Toronto Hydro-Electric System Limited's Customer Care team. *Lower:* **Ken Nakahara**, Toronto Hydro Energy Services Inc.'s Green Energy team. Back cover photos: *Upper:* **Valerie Walker**, Toronto Hydro-Electric System Limited's Customer Facilities, Design and Construction team. *Centre:* **Patrick Earl Walters**, Toronto Hydro-Electric System Limited's Construction Services crew. *Lower:* **Roslyn Ferguson**, Toronto Hydro-Electric System Limited's Meter Services crew. Cover background: Electronic map of Toronto Hydro-Electric System Limited's electrical distribution grid at the new master distribution system control centre, opening in 2002. Photo on page 1: *Left to right:* **Grant Blanchard**, Toronto Hydro-Electric System Limited's Construction Services crew and **Mark Ryder**, Toronto Hydro-Electric System Limited's Customer Facilities, Design and Construction crew.



facts

Total number of hydro poles
159,629

Total length of overhead wires
9,119 kilometres

Total length of underground cables
7,445 kilometres

Total number of transformers
58,701

Total number of primary switches
25,855

Total number of cable chambers
10,197

Total number of underground vaults
11,989

SAIDI – System Average Interruption Duration 2001
77.6 minutes

CAIDI – Customer Average Interruption Duration 2001
41.3 minutes

SAIFI – System Average Interruption Frequency Index
1.9 interruptions

SAIFI (MI) – System Average Interruption Frequency Index (Momentary Interruptions only)
3.8 interruptions

Peak load
5,000 megawatts in August 2001 compared to 4,487 megawatts in 2000

Purchased demand peak
$45,101,102 in August 2001 compared to $40,470,283 in 2000

Sale of electricity
$2,062,179,000 for 2001 compared to $1,900,029,000 in 2000

Cost of power purchased from Ontario Power Generation Inc.
$1,740,412,000 for 2001 compared to $1,614,730,000 in 2000

Toronto Hydro Corporation employees
374

Toronto Hydro-Electric System Limited employees
1,209

Toronto Hydro Energy Services Inc. employees
80

Toronto Hydro Telecom Inc. employees
9

Toronto Hydro Street Lighting Inc. employees
30

DEFINITIONS **MegaWatt** A measure of electrical energy equalling 1,000 kilowatts, or enough energy to power 10,000 100-watt light bulbs. **Transformer** A device used to transform primary voltage to secondary voltage, to transfer power from a generating plant to a customer. **Primary switch** A device for isolating a section of the distribution circuit primary power (27.6kV, 13.8kV or 4kV) from a substation. **Cable chamber** An underground facility that provides access to cables for inspections and repairs. **Underground vault** An underground facility that contains electrical equipment such as transformers, switches, protectors, etc. **Peak load** The maximum demand for power, measured in kilowatts, that occurs within a stated period of time. Toronto Hydro's peak system load (or demand peak) occurs in summer because of power demands for air conditioning. **Kilowatt-hour** A measure of electrical energy, enough to operate a 100-watt light bulb for 10 hours.

Toronto Hydro at a Glance

REGULATED BUSINESS

RETAIL BUSINESSES

Toronto Hydro Corporation

Profile

Toronto Hydro Corporation operates four wholly owned affiliates that carry on the businesses of electricity distribution, retail energy sales and services, telecommunications and street lighting. The Corporation's four affiliates are: Toronto Hydro-Electric System Limited, the regulated local distribution company; Toronto Hydro Energy Services Inc., the retail energy sales and services company; Toronto Hydro Telecom Inc., the retail fibre optics leasing company; and Toronto Hydro Street Lighting Inc., the retail street lighting services company. Toronto Hydro Corporation also owns 1455948 Ontario Inc., which holds 50% ownership in EBT Express, an electronic transaction clearing hub. Toronto Hydro Corporation is wholly owned by the City of Toronto.

Services

- Provides shared services for the four affiliates, including: all financial and banking operations; budgeting; planning and monitoring; information systems; human resources; corporate communications; legal and public and regulatory affairs
- Provides policy and strategic direction for the four affiliates
- Manages Shareholder and key stakeholder relationships

2001 Achievements

- Achieved net income of $11.4 million
- Met operating and capital expenditure targets
- Completed all aspects of our work program, while significantly improving workplace safety
- Successfully prepared billing and customer information systems for the opening of Ontario's competitive electricity market
- Provided training programs on operational effectiveness to almost two-thirds of our employees
- Implemented a comprehensive, results-oriented performance management system

2002 Objectives

- To achieve net income in the $40 million range
- To continue the implementation of effective Management Control and Reporting Systems to improve operational efficiency
- To improve our lost time injury frequency rate by 33% and severity rate by 26%
- To foster positive working relationships with our unions and employees
- To develop our community involvement programs through support of United Way, Take Our Kids to Work and CityWatch
- To champion green energy initiatives such as Citisource™ Green Power, and through our investment in co-generation, wind turbines and other sources of alternative energy
- To enhance our environment through initiatives such as biodiesel fuels, waste diversion and recycling, and the City's Urban Forest tree planting program

Toronto Hydro-Electric System Limited

Profile

Toronto Hydro-Electric System Limited is the largest municipally owned electrical distribution utility in Canada, delivering electricity to a broadly diversified, economically robust residential, commercial and industrial customer base in the City of Toronto. The utility distributes approximately 20% of Ontario's electricity.

Services

- Ensures the safe and reliable delivery of electrical power to 660,470 residential, commercial and industrial customers
- Plans, maintains and operates Toronto's electrical distribution system infrastructure safely, efficiently and in an environmentally responsible manner
- Promotes workplace and public awareness about electricity safety and energy conservation
- Delivers consistently high quality customer service and account management

2001 Achievements

- Met operating and capital expenditure targets, while significantly improving safety and reliability results, utilizing a smaller workforce
- Enhanced performance-based customer service, matching or surpassing regulator's benchmarks
- Introduced new customer information and billing systems, business processes and staff training
- Began implementing centralized, reliability-based Asset Management planning system

2002 Objectives

- To continue to improve workplace safety performance through accident prevention and early safe return to work support
- To improve efficiencies and cost-effectiveness, by utilizing performance metrics and Management Control and Reporting Systems
- To maintain excellent customer service by matching or surpassing Performance Based Regulation standards
- To continue the successful implementation of our new Ellipse enterprise resource planning system software

Toronto Hydro Energy Services Inc.

Profile

Toronto Hydro Energy Services Inc. is a leading Ontario retailer of electricity, natural gas and energy efficient products and services, and a developer of alternative clean and green energy. This fully-integrated energy services company serves all customer segments in Ontario.

Services

- Sells electricity and natural gas throughout Ontario, and develops and sells energy efficient engineering solutions for lighting, heating and cooling
- Develops and sells Citisource™ Green Power from renewable resources
- Builds electrical infrastructures for customer-owned facilities through Citisource™ Design and Construction
- Leases, sells and services water heaters

2001 Achievements

- Achieved more than $1 billion in sales of electricity and natural gas contracts, and energy efficient products and services, over the next three years
- Implemented rigorous risk management policies and procedures
- Launched the Citisource™ House Calls program for home improvement, with electrical contracting and home wiring services
- Secured building permit for first urban wind turbine in Canada, and continued feasibility study for 150 mW co-generation clean power facility

2002 Objectives

- To continue our growth strategy as a retailer of choice in the Ontario market
- To further develop and sell our Citisource™ Green Power portfolio from renewable resources
- To provide Citisource™ Design and Construction infrastructure solutions for customer-owned facilities
- To expand the Citisource™ House Calls program to include window products and services

Toronto Hydro Telecom Inc.

Profile

Toronto Hydro Telecom Inc. is a provider of dark fibre and a comprehensive suite of data communication services to telecom carriers and large businesses and institutions located in the City of Toronto.

Services

- Provides access to its network of more than 700 route-kilometres of fibre optic cable, connecting approximately 400 office buildings in Toronto
- Offers private line service; metro LAN (Ethernet access); dedicated Internet access; and data centre co-location solutions

2001 Achievements

- Designed and built telecommunications network to deliver new services
- Secured site location for Network Operations Centre

2002 Objectives

- To commission "best in class" network to enable delivery of highly reliable data services
- To launch a suite of data services targeted at commercial enterprises

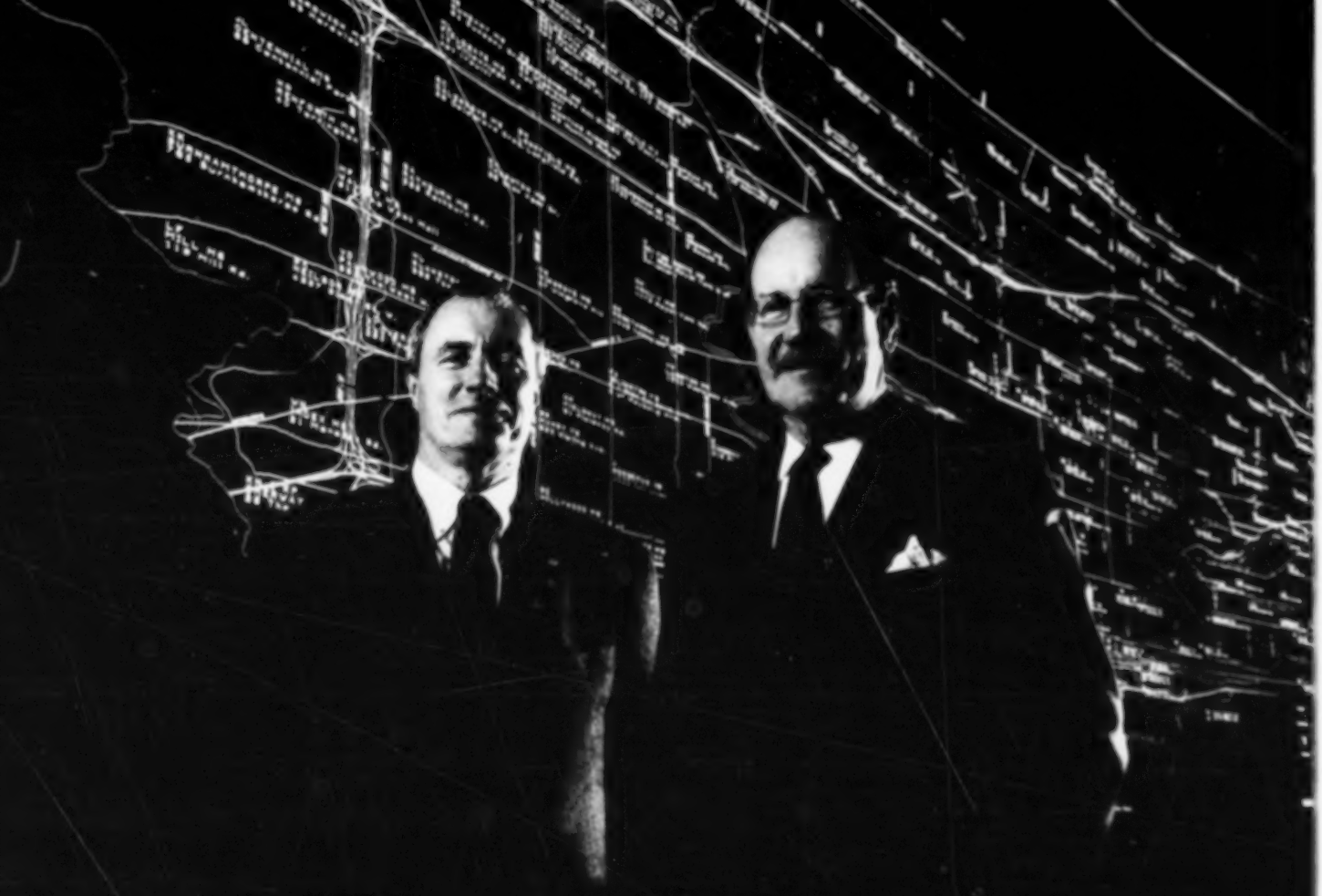
Toronto Hydro Street Lighting Inc.

Profile

Toronto Hydro Street Lighting Inc., created in 2002, is a provider of street lighting services for the City of Toronto.

2002 Objectives

- To increase street lighting services we provide for Toronto
- To seek new exterior lighting opportunities with commercial businesses



Courtney Pratt
President and Chief Executive Officer
Toronto Hydro Corporation

Claire R. Copeland
Chair, Board of Directors
Toronto Hydro Corporation

Doing It Right

Our accomplishments over the past 12 months have been the direct result of tremendous efforts by our employees. Due to their diligence and dedication, we are well positioned to meet the demands of competing in this dynamic industry.

In 2001 we went back to the basics of **Doing It Right**: having the right people, the right corporate structure, the right financial results and the right process management changes underway to make us ready to succeed in an open energy market.

Our net income for the year was $11.4 million, compared to a loss of $7 million in 2000. Net income before unusual items of $11.8 million was $25 million. In accordance with our financial plan, we paid $41.9 million in interest to our sole Shareholder, the City of Toronto. During 2002, we will pay full interest of $67 million on the Shareholder's promissory note, as our distribution rates increase according to a schedule which will bring us to a Market Based Rate of Return of 9.8 percent on deemed equity in 2003.

To keep our spending within budget, we had to make some tough decisions about downsizing. A voluntary separation and retirement program led to the departure of nearly 300 employees from all levels and sectors of the company. We also streamlined our management structure. At the same time, we did not scale back any of the objectives we had set for ourselves. We completed all aspects of our operating and capital work programs. We matched or surpassed our targets for quality customer service, reliability and market readiness.

Equally important, our safety record improved significantly, with disabling injuries and severity rates dropping by over one-third in 2001. We will continue to place the highest priority on keeping our working environment safe for all our employees and our city's environment safe for all its residents. To strive for further improvement, we have created the new position of Vice-President of Environment, Health & Safety, reporting directly to the CEO.

We also place a very high value on developing constructive working relationships with our labour unions and believe that we made tangible progress towards this goal in 2001. For the first time in the past four contract periods, we negotiated a collective agreement with CUPE Local One without a work disruption. As well, we signed a first collective agreement with the Society of Professional Engineers.

Senior Executive Management Team (left to right)
John N. Brooks, President and CEO, Toronto Hydro-Electric System Limited;
Hilda Mackow, President and CEO, Toronto Hydro Energy Services Inc. and Toronto Hydro Telecom Inc.;
and **Wanda Liczyk**, Senior Vice-President and Chief Financial Officer, Toronto Hydro Corporation

Work has been underway for several years on an initiative we call Business Transformation and we expect that this process will be largely completed in 2002. Business Transformation involves the implementation of an ERP (Enterprise Resource Planning) system, the redesign of major work processes and the development of Management Control and Reporting Systems. These systems will give us the information we require on a timely basis to plan and manage our work and deliver bottom line results. Our new ERP system went "live" on March 4, 2002 – on time and on budget. Business Transformation is a major undertaking which is absolutely critical to the achievement of the productivity improvements we seek.

The second critical initiative has been the immense effort of getting our company ready for the electricity industry's "Market Opening" on May 1, 2002. For the entire industry in Ontario, this represents a massive and highly complex information systems project. In essence, a number of systems must record complex transaction data for each component of the electricity market, and then must work together to ensure that each customer receives an accurate bill reflecting usage and price. Toronto Hydro, as the province's largest municipally owned utility, has worked hard to face this major challenge and, as we go to press, we are confident of our ability to be ready on May 1st.

A key part of preparing for the new competitive marketplace has been the establishment of our retail affiliate, Toronto Hydro Energy Services Inc. During 2001, the sales and marketing efforts of this group resulted in over one billion dollars in contract sales of electricity, natural gas and energy efficient products and services over the next three years. At the same time, this group put in place the sophisticated risk management policies and procedures required to safeguard the company's interests.

103-04039/

In December, we met with credit rating agencies Dominion Bond Rating Services and Standard & Poor's, to obtain a rating for Toronto Hydro. This was in anticipation of a public debt offering during 2002. We were awarded ratings of: A (DBRS) and A with positive outlook (S&P). These ratings reflect the overall soundness of our business, the dependability of the cash flows from our regulated distribution business, and our approach to managing the risks in each part of the Corporation.

It has been a year of great opportunities and progress for Toronto Hydro. Our accomplishments over the past 12 months have been the direct result of tremendous efforts by our employees. Due to their diligence and dedication, we are well positioned to meet the demands of competing in this dynamic industry. Inevitably, change creates stress for the people in any organization. We have worked hard to manage this by helping our employees to understand the need for change and by inviting their input as we transform the way we do business. We are giving our people the tools they require to do their jobs better and communicating to them our goals and progress as effectively as possible. We thank all of our employees for their strong contribution during 2001.

Since the company's establishment in June, 1999 we have had the great advantage of an outstanding Board of Directors. Their breadth and depth of expertise, as well as the enormous amount of time and attention they have brought to key areas – risk management, environment, health and safety, regulatory issues and finance – have made a huge difference to Toronto Hydro. Corporate governance is truly a competitive strength in our company.

This Annual Report provides more detail on a number of the accomplishments identified in this section. Our overriding theme is **Doing It Right**. We tell you what our plans were for 2001, how we did, and where we are going in 2002 and beyond. The opening of the electricity market in May marks the latest chapter in the unfolding story of Toronto Hydro. We played a pivotal role in getting the industry to this stage. We will be a winner in our new competitive marketplace. We will keep on **Doing It Right**.

Clare R. Copeland

Chair, Board of Directors, Toronto Hydro Corporation

Courtney Pratt

President and Chief Executive Officer, Toronto Hydro Corporation

We have been breaking down the vertical silos in our company, effectively and efficiently streamlining the way our business units work with each other and, most importantly, with our customers.

Transforming Our Business

- ✓ Increasing operational effectiveness through new Management Control and Reporting Systems
- ✓ Promoting accountability and clear decision-making, measured by specific Key Performance Indicators
- ✓ Driving process improvement through continuous change management
- ✓ Fostering a "performance mindset" to meet the challenges of the regulatory environment
- ✓ Benchmarking critical operations to foster continuous improvement
- ✓ Consistently communicating goals, expectations and results to employees
- ✓ Enhancing service reliability and customer responsiveness through our new master distribution system control centre
- ✓ Supporting our market readiness teams to achieve a fast and smooth transition to the new market structure

(upper right) **Josephine Fernando**, Customer Care team, Toronto Hydro-Electric System Limited
(lower left) **Ron Coulthart**, Customer Facilities, Design and Construction crew, Toronto Hydro-Electric System Limited

Denise Flores Manager, Process & MCRS Implementation, Business Transformation

Key Performance Indicators (KPIs) set the targets for our goals and track our performance across the organization. Management Control and Reporting Systems (MCRS) allow us to have timely information via reports and documents, and through effective meetings, to make proper business decisions.

Transforming Our Business

As the energy industry has been evolving, we have been transforming our business.

Brian Doherty and Diana Nagy

Members of Ellipse ERP team

Doing It Right, we have moved from the concept planning stage to executing detailed work process changes, involving teams of employees from across the company. We identified five key business processes in our transformation strategy: Customer Inquiry and Response; Power System Asset Management; Planned Work; Supply Chain; and Revenue. Using a staged, methodical and consultative process these areas have been redesigned to enhance workflow, output and cost savings. Our goal is to work smarter while meeting our regulatory requirements.

Leaders have been emerging from across the company as our transformation continues, and they are assessing needs and opportunities for each business unit. Based upon their recommendations, we have been breaking down the vertical silos in our company, effectively and efficiently streamlining the way our business units work with each other and, most importantly, with our customers.

Romano Sironi, Benny La Pianta and Ivano Labricciosa

Members of PSAM team

In 2001 we began implementing a centralized, reliability-based decision making model. Through "Asset Management", we will be able to identify, compare and set priorities for all our investment decisions based on operational experience and research. Our focus on "Utilization, Safety and Service" will ensure that we allocate financial and physical resources to achieve the greatest benefit in distribution system performance.

Our new Ellipse enterprise resource planning (ERP) system is providing the technology to make Asset Management possible. Ellipse was successfully launched on March 4, 2002, on time and on budget. This system is helping us monitor, measure, plan and report our day-to-day work activities and financial operations, so that we can take the steps necessary to stay on target. This will ensure we continue to meet Performance Based Regulation (PBR) requirements and it further underscores our fundamental approach to good management.

Jennifer Stulberg, Ave Lethbridge and Jodi Engel Covens

Members of Organizational Development team

Grant Hanley Supervisor, Construction and Maintenance, Distribution Projects

With the new Supply Chain process across the company and Planned Work process at Belfield, our crews are experiencing fewer delays related to materials. Improved planning and having the right materials when and where we need them allows us to be more efficient.

Bob Quinn and Pete Dyson

Integrated Customer Response crew

The official opening of our new master distribution system control centre at 5800 Yonge Street in 2002 will mark the consolidation of this critical area of our operations. As the heart of Toronto's electricity system, this centre will enable us to efficiently and cost-effectively enhance customer response, crew communications and the safety and reliability of our service.

Throughout 2001, our people have shown their capability to meet the challenges of our evolving business environment and the increasingly complex nature of distributing electricity to a modern, growing urban centre. As new technologies are adopted for Toronto homes and workplaces, our customers' dependence on a safe and reliable supply of electricity is increasing. The expertise of our skilled and experienced workforce will enable us to meet our challenges and we will continue transforming our business through the years ahead.

John Rouse, John Petras and Robert Glavanov

Members of USS team

Business Transformation teams:

- Customer Inquiry and Response
- Power System Asset Management (PSAM)
- Planned Work
- Supply Chain
- Revenue

Transformation terms:

- ERP – Enterprise Resource Planning (Ellipse technology)
- KPIs – Key Performance Indicators
- MCRS – Management Control and Reporting Systems
- USS – Utilization, Safety and Service (joint team incorporating members of Planned Work and Supply Chain. The 'USS' theme provides the focus for our business process improvements.)

Ernie Fleischer, Isabella Chung and Claris Rambally

Members of Finance Department team

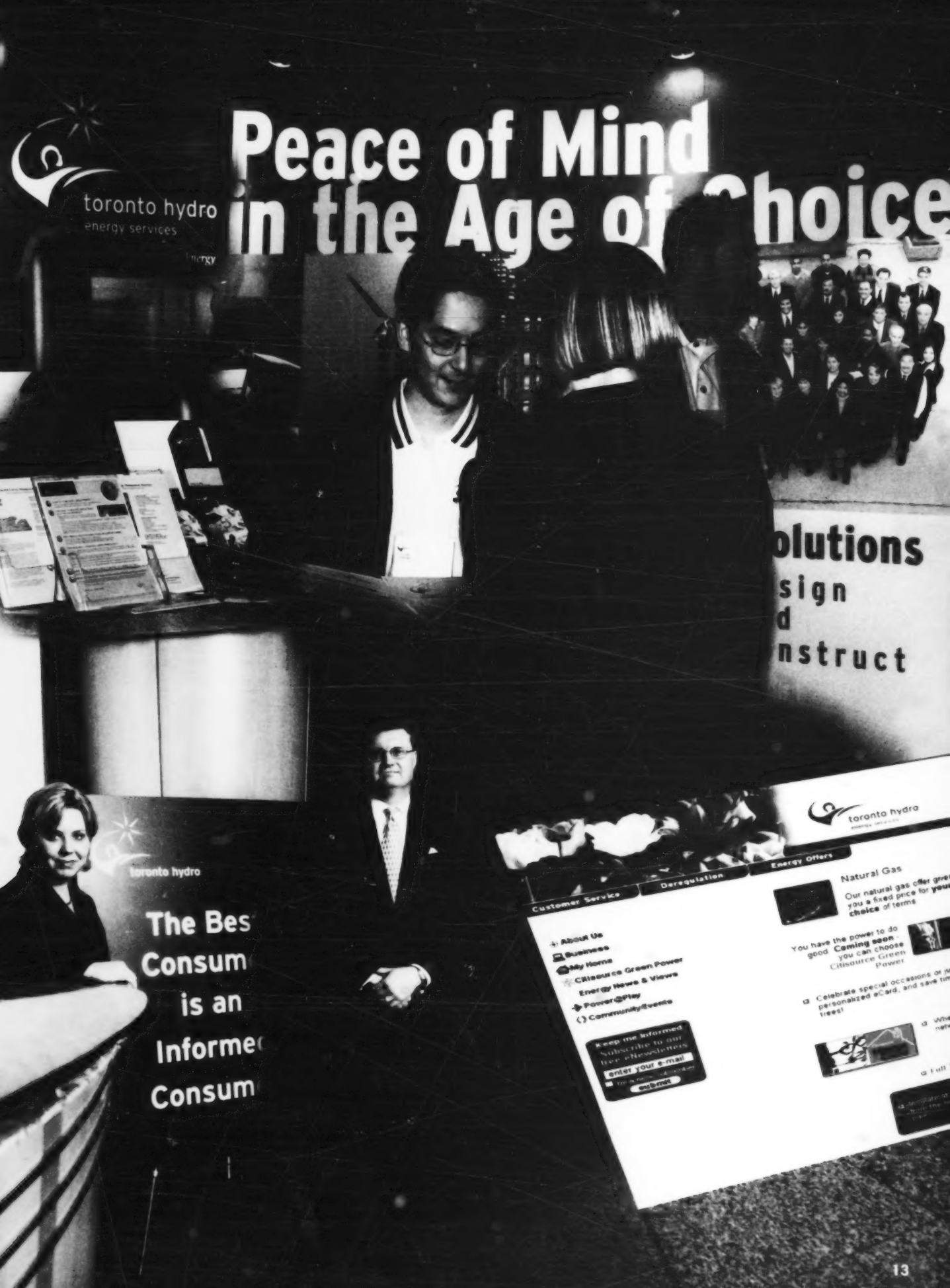
As the new market transition continues to move forward, we remain committed to creating an energy marketplace that works for everyone.

Leading in a Competitive Market

	Toronto Hydro-Electric System Limited
✓	Responding to customer needs through state of the art billing and customer information systems
✓	Matching and surpassing Performance Based Regulation customer service benchmarks
✓	Managing the transition through the first year of the competitive market
✓	Educating consumers about Ontario's new electricity market structure
✓	Providing transparent, easy to understand billing information to customers

	Toronto Hydro Energy Services Inc.; Toronto Hydro Telecom Inc.; Toronto Hydro Street Lighting Inc.
✓	Retailing electricity, natural gas, and energy efficient products and services
✓	Offering all customer segments energy management solutions to reduce energy usage and greenhouse gas emissions
✓	Developing and selling Citisource™ Green Power from renewable resources
✓	Providing Citisource™ Design and Construction infrastructure services
✓	Expanding Citisource™ House Calls home improvement program to include window products and services, as well as electrical contracting and home wiring
✓	Delivering highly reliable fibre optic data management services
✓	Providing street lighting and exterior lighting services

(upper, left to right) **Ken Nakahara**, Toronto Hydro Energy Services Inc.'s Green Energy team and **Jack Simpson**, Toronto Hydro Energy Services Inc.'s Energy Solutions team
(lower, left to right) **Karen Zeppa** and **Stephen Andrews**, Toronto Hydro Corporation's Communications and Public Affairs 'Town Hall' consumer information team


Peace of Mind
in the Age of Choice
toronto hydro
energy services
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Consum
toronto hydro
Customer Service
Deregulation
Energy Offers
About Us
Business
My Home
Citisource Green Power
Energy News & Views
Power@Play
Community/Events
Natural Gas
You have the power to do good. Coming soon you can choose Citisource Green Power
Keep me informed
Subscribe to our free eNewsletters
enter your e-mail
submit

Pam Tweedy Manager, Customer Care Accounts Receivable

Customer Care staff know our customers are relying on us to help them make a smooth transition into the competitive market. That's why we're giving our people the appropriate training and support, to ensure they have the right tools and information they need to assist our customers.

Leading in a Competitive Market – Toronto Hydro-Electric System Limited

In 2001, we stayed sharply focussed on market opening. Our customer information systems are critical to our operations and extensive testing was completed to ensure accuracy in our billing and tracking of customer movements. We successfully launched an e-billing option through our website, www.torontohydro.com. Our information technology staff members have been active participants in the "market readiness trenches", working alongside customer service and operations staff to solve the complexities of data tracking and reporting.

Ron Levesque and Ron Sisti

Distribution Projects crew

Our Call Centre Customer Service Representatives (CSRs), who handle thousands of contacts each day, were given customized training in new billing and account processing procedures well in advance of market opening day. They flagged issues as customers raised them so that our consumer education programs would be accurately targeted. Our CSRs are among the best-trained and best-informed in the industry, **Doing it Right** on the front lines.

Ed Morvay and Roman Dementavicius

Members of LDC Market Readiness and Information Technology teams

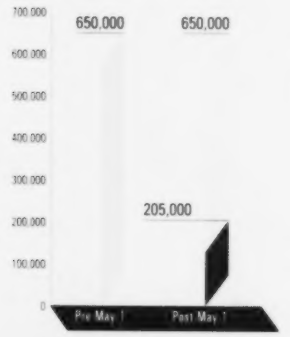
Our retailer education program established close links with the energy services companies that are operating in Toronto. We want to make retailers' business dealings with us efficient and customer-friendly. Our respective service processes and procedures were reviewed to ensure that information transfers are fast and accurate. We have established "call centre to call centre" links to ensure that customers are handled professionally during every transaction.

Our commitment to the market extended to helping other distribution utilities get ready through a joint web-based information hub created by Toronto Hydro and the Electricity Distributors Association. Toronto Hydro staff provided a complete market readiness "how to" site for smaller local distribution companies (LDCs), drawing upon the billing, regulatory and information systems expertise that we have developed in-house.

We initiated a series of town hall information sessions, talking to consumers and our employees about how the new market will work and explaining the background of industry reform. These sessions were backed up by executive speeches, news media interviews and advertising about our market readiness efforts. We led a group of major energy companies in the "More Power To You" coalition, delivering a consumer education campaign in the months leading up to May 1st. We also participated in the creation of the new Ontario Energy Association, an association of major natural gas and electricity utilities, services companies and suppliers to the industry.

As the new market transition continues to move forward, we remain committed to creating an energy marketplace that works for everyone.

Comparison of Distribution and Sale of Electricity Before and After May 1, 2002



Before May 1, 2002: The total number of customers receiving electrical distribution services and purchasing power from Toronto Hydro Electric System Limited

After May 1, 2002: The number of customers opting to purchase power from electricity retailers, out of the total number of customers receiving electrical distribution services from Toronto Hydro Electric System Limited

Brenda Schacht Homeowner, Toronto Hydro Energy Services Inc. electricity customer

We didn't feel comfortable with the idea of signing up with an electricity retailer until we saw what Toronto Hydro Energy Services had to offer. Their contract gives us the protection of a fixed price, for a guaranteed period of time. Now we're asking, 'when does our new price start?' – we can hardly wait for the market to open.

Leading in a Competitive Market – Toronto Hydro Energy Services Inc.

In 2001, Toronto Hydro Energy Services Inc. dramatically grew its electricity, natural gas and energy engineering solutions businesses. We established a wholesale energy portfolio management operation for natural gas and electricity. We introduced our Citisource™ House Calls program for home improvement, with electrical contracting and home wiring services.

Citisource™ House Calls

Easy access to home improvement services

As market opening approached, we took the lead in making our energy offers easy to understand – **Doing it Right** by using simple, clear language. Customers responded by contracting to buy over one billion dollars' worth of electricity, natural gas and energy efficient products and services from us over the next three years.

As a producer of alternative power, we made a commitment to champion the development of clean and green products and services. In the spring of 2002 we met that commitment, by launching our Citisource™ Green Power offer. In the fall of 2002, we will be erecting Canada's first urban wind turbine, in downtown Toronto.

We entered into several multi-year agreements with large businesses and institutions to supply electricity. We completed major energy retrofit projects for a number of customers.

Dena Brooker, Jorge Pereira, Anita Windisman, Angela Dosis and Vincenzo Addario

Members of eBusiness team

Other Affiliates

Our retail telecommunications company, Toronto Hydro Telecom Inc., continued to capitalize on the surplus capacity of its fibre optic network: 700 route-kilometres connecting approximately 400 office buildings in the City of Toronto. The company recently introduced a portfolio of "lit" data services to complement its dark fibre leasing product. Over time, we expect these new services to grow and significantly diversify our revenue base.

Daljeet Matharu, Cameron Lavers and Modestino Pellecchia

Members of Toronto Hydro Telecom team

To comply with OEB regulations, Toronto Hydro Corporation created an affiliate, Toronto Hydro Street Lighting Inc., to provide street lighting services for the City. This affiliate is now actively seeking out new exterior lighting opportunities, in municipalities and commercial businesses beyond Toronto's borders.

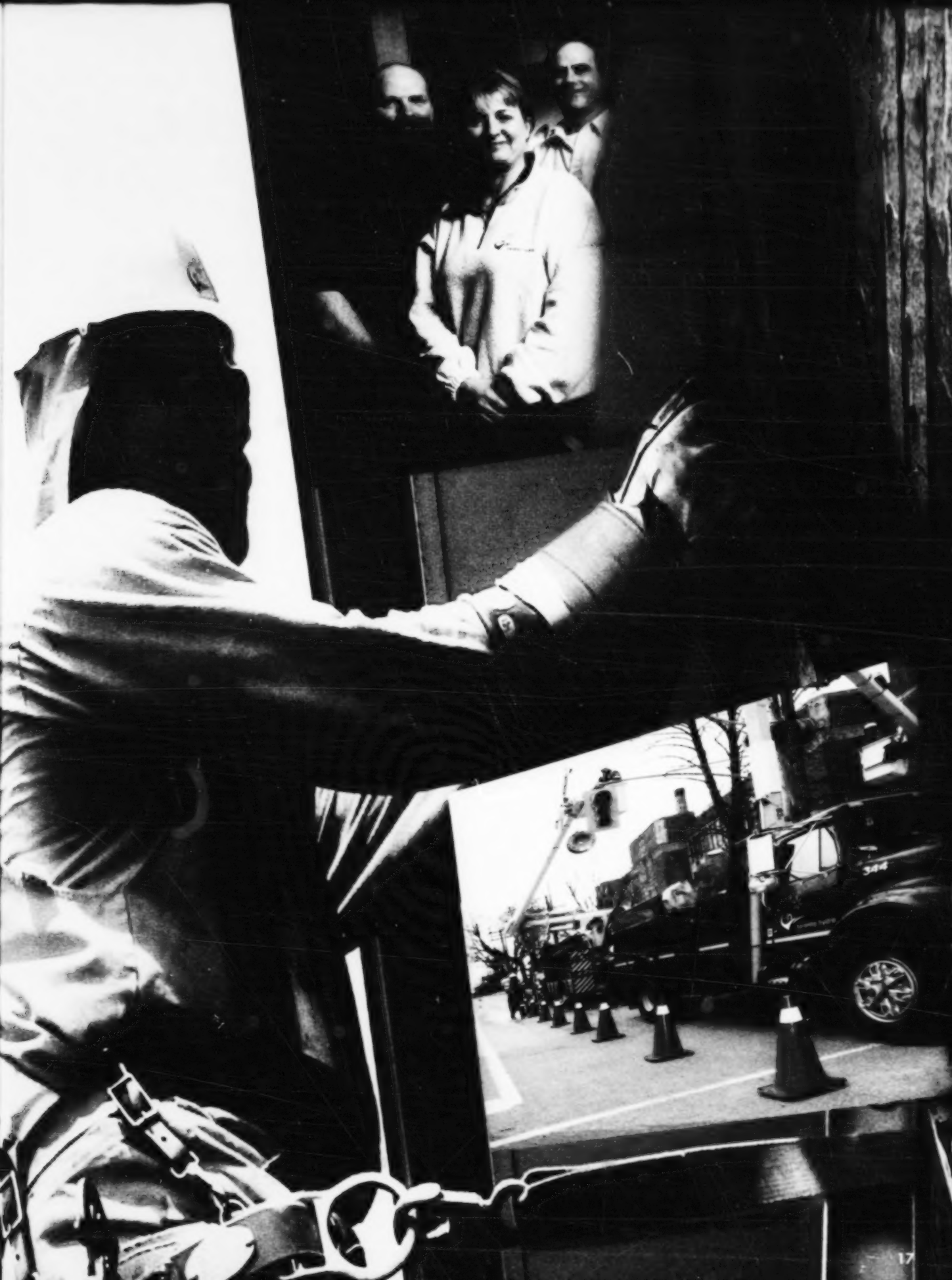
For all our commercial, institutional and residential customers, our retail companies are successfully offering a diversity of choices, tailored to their energy and telecommunications needs.

Recognizing that it is our behaviours, day in and day out, that create a safe workplace, our company is fully supporting safety communications, training programs, and continuous workplace improvements.

Enhancing Our Workplace, Our Environment and Our Community

- ✓ **Significantly improving workplace safety results, by lowering lost time injury frequency rate by 33%, and severity rate by 26%**
- ✓ **Fostering public awareness about working responsibly with electricity**
- ✓ **Improving our environment by supporting green energy initiatives and energy conservation**
- ✓ **Supporting the City's Urban Forest tree planting program**
- ✓ **Partnering on Canada's first urban wind turbine project**
- ✓ **Actively supporting community activities and charities**
- ✓ **Promoting public education through school activities and community events**

(upper right, left to right) **Gord Hunter**, **Lorraine Gauthier** and **Jack Leddy**, Environment, Health & Safety team, Toronto Hydro-Electric System Limited
(left) **Rich Lang**, Distribution Projects crew, Toronto Hydro-Electric System Limited



Dale Little Safety and Environmental Consultant, Distribution Services

We had a big reduction in lost time accidents in 2001, and now we are working toward an even bigger reduction in 2002. To make that happen, all of us – workers and management – will have to take responsibility for providing a safe workplace for everyone.

Enhancing Our Workplace

Keeping our workplace safe is of paramount importance. Historically, we have not met our safety result targets. In 2001, we began to turn this around, and by the end of last year, we had lowered accident frequency and severity rates by over one-third. In 2002, we want to keep on driving this improvement until we have virtually eliminated workplace injuries.

Awareness, Attitude, Action

The 3 A's of Safety, promoted through our poster campaign

Through our corporate Environment, Health & Safety unit we are helping employees return to work as quickly and safely as possible. We are also improving our WSIB claims administration, first aid, wellness education and other initiatives to support a healthy workforce. Our Environment, Health & Safety staff is focussing on injury and illness prevention both on and off the job.

Along with CUPE Local One, we are developing an effective environment, health and safety management system. Recognizing that it is our behaviours, day in and day out, that create a safe workplace, our company is fully supporting safety communications, training programs, and continuous workplace improvements. Through ongoing employee meetings and crew visits, we are reinforcing the importance of safe work practices.

Sammy Go of the Environment, Health & Safety team

Ensuring safe work practices through constant inspections

Safety awareness is being raised throughout the company. Our "3 A's of Safety" poster campaign, promoting Awareness, Attitude and Action is employee-driven and features high-impact visuals of our workers on actual job sites. Safety bulletins are regularly communicated through our electronic employee newsletter, alerting staff to potential hazards that have been identified in the field by our crews.

Electricity, if used carelessly, can seriously injure or kill. Public education is a priority and our safety teams tour Toronto schools, using our "Hazard Hamlet" demonstration model to show children how to stay safe in the house and when playing outside. We support this message at community events, distributing our safety brochures.

Well-marked sites and well-equipped crews

Keeping our workplace and our community safe

Doing It Right, we are keeping safety first and foremost, on the job and out in the community.

Joyce McLean Manager, Green Energy, Toronto Hydro Energy Services Inc.

Over the past few years, we have expanded our focus from supporting environmentally friendly initiatives, to taking the lead in developing alternative clean and green energy. We are also working to ensure that each project we commit to is carried out in a way which helps conserve our environment.

Enhancing Our Environment

Promoting clean and green energy options is an important part of our mandate. We want a cleaner future for our City, and we encourage the responsible production and use of energy in the community and our workplace.

Alternative fuel vehicles in our fleet are helping improve Toronto's air quality. We are powering 100 of our vehicles with low sulphur diesel and soy-based "biodiesel" fuel – a clean air initiative that has been praised by Canada's Minister of Natural Resources.

Our environmentally friendly energy services initiatives include energy retrofits, with solar panel options, and a planned 150 mW co-generation power plant, in partnership with Boralex Inc.

This fall, we are erecting Canada's first downtown wind turbine atop a 65-metre tower at Exhibition Place. We have partnered with the Toronto Renewable Energy Co-operative – the first venture in North America involving a citizens' co-operative and a major energy company. Each year, this turbine will displace as much as 1,400 tonnes of carbon dioxide, 8,400 kilograms of sulphur dioxide and 5,600 kilograms of nitrous oxide – the main ingredients in acid rain, smog and ground-level ozone.

Using tree wire where possible and careful line clearing procedures to minimize cutting, our crews work cautiously around the mature shade trees that line our residential streets. Trees are a valuable environmental asset and we are major supporters of the planting initiatives of the LEAF organization and the City's Urban Forest program.

Doing It Right means cutting waste in our distribution system. Transformers are rebuilt whenever possible, electrical cables are recycled, and an ambitious waste diversion program has been established in our offices. Our employees are expertly trained in the handling, storage and transportation of hazardous materials.

This year we will produce our first sustainability report to more thoroughly discuss the many ways – large and small – in which we are working to improve the environment around us.

Roger Smith and Fleet Services' Biodiesel Fuel Project

Conserving our environment through alternative fuels

Chuck Perry and the Waste Management System

Maintaining environmentally friendly offices

Paul Reesor, son Andrew and the Urban Forest Program

Planting trees to enhance our City's green spaces and improve our air quality

Frances Lankin President and CEO, United Way of Greater Toronto

Enhancing Our Community

Many of our employees are actively involved in the community, volunteering their time and resources to help others. We run in marathons to raise money to fight Breast Cancer, and we march in the White Ribbon Dad Walk to fight violence against women. In 2001, our employees organized our most successful United Way effort ever, raising $127,000 through our "Have a heart...give from the heart" campaign for our joint United Way/Employee Charity Trust.

In June, we ride bicycles and public transit in support of Pollution Probe's Clean Air Commute. In July, we participate in the Toronto Street Festival providing entertainment and bucket truck rides to children and adults alike. Throughout the year, with the support of CUPE Local One, we add over 1,000 extra pairs of eyes and ears to Toronto's CityWatch public safety program, connecting with Toronto's other major municipal services crews to help citizens who are in trouble.

We promote public education through the Learning Partnership's Take Our Kids to Work campaign, giving our employees' children the chance to see their parents at work, and to have some fun too. More than 80 grade nine students spent the day at Toronto Hydro on November 9th. We are also a major sponsor of the annual Toronto schools' SciTech Fair, encouraging our next generation of scientists to carry a love of science into a career. Sales of bouncing 'buzz balls' at our retail booths bring in funds for The Hospital for Sick Children's Operation Herbie charity.

Doing It Right as a caring member of our community means getting involved and making a real difference, by continuing to volunteer our time and resources.

John MacInnis, Distribution Projects and Grade 9 visitors

Students learning on the job during Take Our Kids to Work Day at Toronto Hydro

Chris Wong and Grace Mullings

Members of "Have a heart...give from the heart" United Way/ Employee Charity Trust campaign team

CARING AND CONNECTING TORONTO

citywatch

Toronto Hydro crews and CityWatch

Keeping people safe on our City's streets

These comments should be read in conjunction with the consolidated financial statements and Auditors' Report included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

Toronto Hydro Corporation (THC) is a holding company with four wholly owned subsidiaries: Toronto Hydro-Electric System Limited (THESL), a regulated electricity distributor; Toronto Hydro Energy Services Inc. (THESI), an unregulated wholesaler and retailer of electricity, natural gas and other energy services; Toronto Hydro Telecom Inc. (THTI), an unregulated fibre optic leasing company; and Toronto Hydro Street Lighting Inc. (THSLI), an unregulated provider of street lighting services. THC also owns 1455948 Ontario Inc., which holds a 50% ownership in EBT Express, which provides electronic transaction clearing hub, services and technology.

I. OPERATIONS

Net Income of $11.4 million in 2001 improved by $18.4 million from 2000 levels, while income before unusual items (and provision for payments in lieu of corporate income taxes) was $23.6 million in 2001, compared to a net loss of $7.0 million in 2000 – an improvement of $30.6 million.

Revenues from customers increased by $168.5 million, or 8.7%, over 2000 levels due mainly to the June 1, 2001 implementation of an Ontario Energy Board-approved wholesale energy surcharge from Ontario Power Generation Inc. ($110.9 million), a full year of the first phase of distribution revenue increases approved by the OEB ($39.5 million) and load growth ($15.7 million).

Costs and expenses before interest, unusual items, and taxes increased by $127.6 million, or 6.7%, over 2000 levels as a result of increased power costs from the OPGI wholesale energy charge increase ($109.3 million) and the increased costs of load growth ($16.2 million). 2001 operating expenses declined by $3.2 million, but were partially offset by increased depreciation and amortization costs of $5.1 million.

Interest costs of $41.9 million on the $380 million promissory note payable to the shareholder – the City of Toronto – were $8.6 million higher than in 2000 and reflect the continued implementation of a commercially based capital structure for Toronto Hydro as allowed by the OEB.

During 2001, the Corporation experienced several events of an unusual or one-time nature that impacted operating results:

i) Toronto Hydro implemented a voluntary separation and retirement program at a net cost of $22.7 million. This program will reduce operating and capital expenses in 2002 and beyond.

ii) Toronto Hydro was party to a successful class action suit against the former Ontario Hydro. Proceeds of $7.8 million were received in September 2001.

iii) Effective January 1, 2002 Toronto Hydro was required to transfer from the Workplace Safety & Insurance Board's (WSIB) Schedule 2 to Schedule 1 – from being a self-insured employer to one required to pay premiums. As a result, the Company had to make a $1.8 million settlement payment to the WSIB on December 31, 2001 to discharge its Schedule 2 liability. However, $4.9 million had already been accrued, so a net $3.1 million gain was realized.

Toronto Hydro, being wholly owned by a municipality, is currently exempt under the Canadian Income Tax Act and the Ontario Corporations Tax Act. However, beginning October 1, 2001, the Company was required, under the Electricity Act, 1998, to make payments in lieu of corporate taxes (PILS) under the rules of the Canadian Income Tax Act and the Ontario Corporations Tax Act. Toronto Hydro provided $339,000 as the 2001 provision for PILS for the period of October 1, 2001 to December 21, 2001.

II. LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities in 2001 was $119.6 million, an increase of $30 million over 2000. Much of this improvement is attributable to the $18.4 million year-over-year increase in net income.

Cash used in investing activities at $174.8 million increased by $7.6 million from 2000, significantly driven by an increase in deferred charges of $4.8 million. Net spending on capital assets remained unchanged from 2000 at $165.5 million.

Net cash generated during the year improved by $52.5 million over 2000 due mainly to $30.6 million in increased short term bank financing and increased customer deposits as well as improved cash provided from operations of $18.4 million.

Short-term bank lines of credit available at year-end were $104.0 million, of which $58.5 million was utilized. Long term notes payable of $980.2 million were payable to THC's sole shareholder – the City of Toronto – at an effective annual rate of 6.8%. Interest on these notes is payable quarterly; maturity is the earlier of demand by the City of Toronto and December 31, 2003.

	2001 Gross Margin	2001 Fixed Assets
	$ 3334 (91%)	$ 1,610 (99%)
	$ 68 (2%)	$ 468 (2%)
	$ 268 (9%)	-
	$ 3668 (100%)	$ 1,639 (100%)

III. REGULATION

THC's largest subsidiary, THESI, is regulated by the Ontario Energy Board (OEB). The OEB has the authority to set the rates for electricity distribution utilities in Ontario. Revenue in THESI is derived from distribution rates which the OEB sets through a Performance Based Regulation (PBR) process. Charges for the cost of power are passed through to customers as sales for electricity.

The current PBR regime is in effect until March 1, 2004 and provides for the following: a 9.88% set rate of return to be earned over a phased period; recovery of inflation cost increases; and mandated levels of productivity improvement.

With Electricity Market Opening, scheduled for May 1, 2002, certain regulations and market rules established by the Independent Market Operator (IMO) and the OEB will govern the competitive wholesale and retail electricity markets. The Ministry of Energy, Science and Technology, the Minister of Finance, the IMO and the OEB continue to assess and develop policy positions that could impact THC.

IV. RISKS AND UNCERTAINTIES

THC employs an integrated approach to risk management. THC is subject to several risks, including market, credit and weather risk that are inherent in a deregulated market. A Risk Oversight Committee in THESI, which consists of senior officers of THC, has been established to approve transactions under the direction of the Board of Directors, and to monitor policies and compliance. The Company's Risk Policy defines roles and responsibilities, approved risk limits, instruments, signature authorities, credit limits and authorized areas of operation.

i **Market Risk**

THC's unregulated subsidiary, THESI, competes for customers with other energy retailers. With Electricity Market Opening, wholesale power will be procured for resale to customers. THESI follows a rigorous protocol to ensure that energy supply and sales are matched as closely as possible. The Corporation believes that any residual volume and price risk can be mitigated and exposure to commodity risk will be limited.

THC's regulated subsidiary, THESL, faces limited volume risk and is not exposed to commodity price risk.

ii **Credit Risk**

Credit risk is the risk of non-performance by contractual counterparties. Each of THESL and THESI has initiated an aggressive approach to managing credit default. THC's subsidiaries have credit policies that include counterparty credit evaluation and collection procedures. THC monitors and limits its exposure to counterparties with lower credit ratings and performs periodic reviews of the credit worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

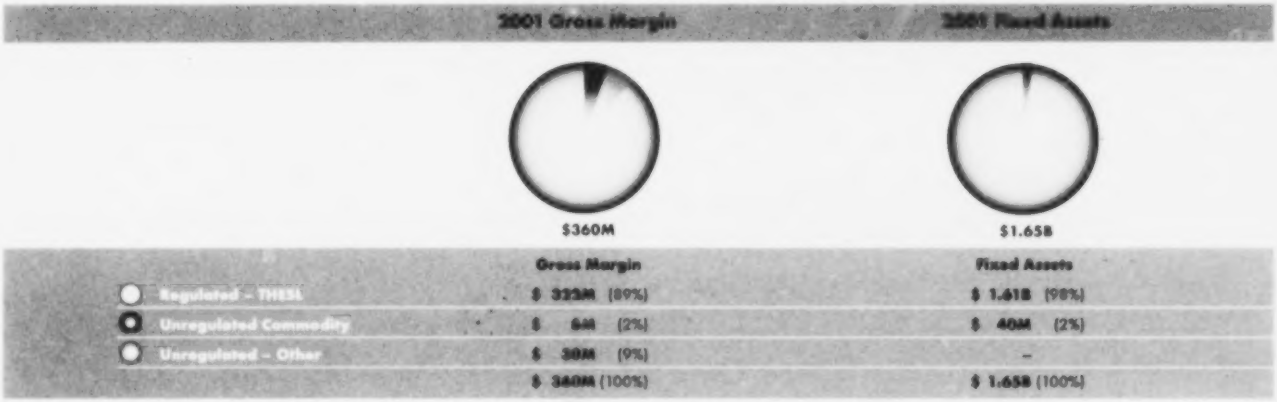
There are no significant concentrations of credit risk with respect to any class of financial assets. Revenue is earned from a broad base of customers.

iii **Weather risk**

Weather impacts the volume of power used by THESI's customers. THESI mitigates this risk with forecasting and modeling, and by taking appropriate actions. Unexpected severe weather can also affect THESL's operating and capital expenditures. This risk is mitigated by reprioritizing, to the extent possible, other urgent operating and capital expenditures.

The accompanying consolidated financial statements of THC and all information in this annual report are the responsibility of management and have been approved by the Audit Committee and in turn the Board of Directors.

The consolidated financial statements necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.



III. REGULATION

THC's largest subsidiary, THESL, is regulated by the Ontario Energy Board (OEB). The OEB has the authority to set the rates for electricity distribution utilities in Ontario. Revenue in THESL is derived from distribution rates which the OEB sets through a Performance Based Regulation (PBR) process. Charges for the cost of power are passed through to customers as sales for electricity.

The current PBR regime is in effect until March 1, 2004 and provides for the following: a 9.88% set rate of return to be earned over a phased period; recovery of inflation cost increases; and mandated levels of productivity improvement.

With Electricity Market Opening, scheduled for May 1, 2002, certain regulations and market rules established by the Independent Market Operator (IMO) and the OEB will govern the competitive wholesale and retail electricity markets. The Ministry of Energy, Science and Technology, the Minister of Finance, the IMO and the OEB continue to assess and develop policy positions that could impact THC.

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i) **Market Risk**

THC's unregulated subsidiary, THESI, competes for customers with other energy retailers. With Electricity Market Opening, wholesale power will be procured for resale to customers. THESI follows a rigorous protocol to ensure that energy supply and sales are matched as closely as possible. The Corporation believes that any residual volume and price risk can be mitigated and exposure to commodity risk will be limited.

THC's regulated subsidiary, THESL, faces limited volume risk and is not exposed to commodity price risk.

ii) **Credit Risk**

Credit risk is the risk of non-performance by contractual counterparties. Each of THESL and THESI has initiated an aggressive approach to managing credit default. THC's subsidiaries have credit policies that include counterparty credit evaluation and collection procedures. THC monitors and limits its exposure to counterparties with lower credit ratings and performs periodic reviews of the credit worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

There are no significant concentrations of credit risk with respect to any class of financial assets. Revenue is earned from a broad base of customers.

iii) **Weather risk**

Weather impacts the volume of power used by THESI's customers. THESI mitigates this risk with forecasting and modeling, and by taking appropriate actions. Unexpected severe weather can also affect THESL's operating and capital expenditures. This risk is mitigated by reprioritizing, to the extent possible, other unspent operating and capital expenditures.

The accompanying consolidated financial statements of THC, and all information in this annual report, are the responsibility of management and have been approved by the Audit Committee and in turn the Board of Directors.

The consolidated financial statements necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

Auditors' Report

To the Shareholder of
Toronto Hydro Corporation

We have audited the consolidated balance sheet of **Toronto Hydro Corporation** as at December 31, 2001 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
February 8, 2002.

Ernst & Young LLP

Chartered Accountants

Consolidated Balance Sheet

(in thousands of dollars)

As at December 31	Notes	2001	2000
ASSETS			
Current assets			
Cash and cash equivalents	16	**$ 19,046**	$ 24,348
Accounts receivable, net of allowance for doubtful accounts		**126,207**	132,559
Unbilled revenue		**174,794**	150,054
Inventories		**30,313**	34,012
Future income tax assets	14	**417**	–
Prepaid expenses		**1,536**	2,612
Total current assets		**352,313**	343,585
Capital assets, net	3	**1,653,430**	1,606,430
Other assets	4	**23,879**	10,513
Future income tax assets, long-term	14	**37,058**	–
Total Assets		**$ 2,066,680**	$ 1,960,528
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Bank indebtedness and bankers' acceptance	6	**$ 58,545**	$ 15,286
Accounts payable and accrued liabilities		**251,117**	245,758
Termination accrual	11	**12,924**	–
Current portion of other long-term liabilities	7	**9,143**	8,632
Total current liabilities		**331,729**	269,676
Long-term notes payable	5 & 8	**980,231**	980,231
Other long-term liabilities			
Other post-employment benefits	10	**103,897**	109,216
Customers' advance deposits and other deposits		**32,069**	25,694
Workers' compensation benefits		**–**	5,012
Future income tax liabilities	14	**599**	–
Provision for environmental costs		**1,801**	1,945
Total other long-term liabilities		**138,366**	141,867
Total liabilities		**1,450,326**	1,391,774
Contingencies and Commitments	15, 16, 17 & 18		
Shareholder's equity			
Share capital	21	**567,817**	567,817
Retained earnings		**48,537**	937
Total shareholder's equity		**616,354**	568,754
Total liabilities and shareholders' equity		**$ 2,066,680**	$ 1,960,528

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Operations

(in thousands of dollars)

Year ended December 31	Notes	2001	2000
Revenues			
Sale of electricity		**$ 2,062,179**	$ 1,900,029
Other income		**38,675**	32,302
		2,100,854	1,932,331
Costs			
Purchased power		**1,740,412**	1,614,730
Operating expenses		**176,463**	179,638
Depreciation and amortization		**117,874**	112,791
		2,034,749	1,907,159
Income before interest, unusual items and provision for payments in lieu of corporate income taxes		**66,105**	25,172
Interest income		**1,151**	2,731
Interest expense			
Other		**(1,028)**	(657)
Long-term debt payable to the City of Toronto		**(41,884)**	(33,328)
Loss on write-down of deferred charges		**(717)**	–
Loss on write-down of investments		**–**	(947)
Income (loss) before unusual items and provision for payments in lieu of corporate income taxes		**23,627**	(7,029)
Termination costs	11	**(22,731)**	–
Proceeds from settlement of class action	12	**7,780**	–
WSIB settlement gain	13	**3,098**	–
Income before provision for payments in lieu of corporate income taxes, LCT and other taxes		**11,774**	(7,029)
Provision for payments in lieu of corporate income taxes	14	**338**	–
Net income (loss) for the year		**$ 11,436**	$ (7,029)

See accompanying notes to the consolidated financial statements

Consolidated Statement of Retained Earnings

(in thousands of dollars)

Year ended December 31	Notes	2001	2000
Retained earnings, beginning of year		**$ 937**	$ 7,966
Future income tax (Note 2)	2	**36,164**	–
Net income (loss) for the year		**11,436**	(7,029)
Retained earnings, end of year		**$ 48,537**	$ 937

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

(in thousands of dollars)

Year ended December 31	2001	2000
OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 11,436**	$ (7,029)
Adjustments for non-cash items		
Depreciation and amortization	**117,874**	112,791
Loss on write-down of investments	**–**	947
Loss on write-down of deferred charges	**717**	–
Net change in other liabilities and assets	**(14,342)**	(1,878)
Future income taxes	**(712)**	–
Other	**71**	(53)
Changes in non-cash working capital balances		
Decrease in accounts receivable	**6,352**	25,627
Increase in unbilled revenue	**(24,740)**	(44,540)
Decrease in inventories	**3,699**	1,224
Decrease (increase) in prepaid expenses	**1,076**	(510)
Increase in accounts payable and accrued liabilities	**5,357**	5,159
Increase in termination accrual	**12,924**	–
Decrease in due to the City of Toronto	**–**	(3,329)
Increase (decrease) in current portion of other long-term liabilities	**(131)**	1,191
Cash provided by operating activities	**119,581**	89,600
INVESTING ACTIVITIES		
Purchase of capital assets	**(165,509)**	(165,473)
Increase in deferred charges	**(9,081)**	(4,303)
Proceeds on disposal of capital assets	**29**	665
Increase in investments	**(222)**	(683)
Recovery of costs on investments	**–**	2,630
Cash used in investing activities	**(174,783)**	(167,164)
FINANCING ACTIVITIES		
Increase in bank indebtedness and bankers' acceptance	**43,259**	15,286
Debt issuance costs	**(451)**	–
Increase in customers' advance deposits	**7,092**	4,497
Cash provided by financing activities	**49,900**	19,783
Net decrease in cash and cash equivalents during the year	**(5,302)**	(57,781)
Cash and cash equivalents, beginning of year	**24,348**	82,129
Cash and cash equivalents, end of year	**$ 19,046**	$ 24,348
Supplemental cash flow information		
Interest paid on long-term notes payable to the City of Toronto	**$ 41,884**	$ 33,328
Payments in lieu of corporate income taxes and capital taxes	**$ 2,726**	$ –

See accompanying notes to the consolidated financial statements

1. INCORPORATION JUNE 23, 1999

On June 23, 1999, Toronto Hydro Corporation ("THC" or the "Company") was incorporated under the Business Corporations Act (Ontario) along with two wholly-owned subsidiary companies, Toronto Hydro-Electric System Limited ("THESL") and Toronto Hydro Energy Services Inc. ("THESI"). The incorporation was required in accordance with the provincial government's Electricity Competition Act ("Bill 35"). The City of Toronto passed a transfer by-law to meet the requirements of Bill 35. Under the terms of the transfer by-law, the City of Toronto is THC's sole shareholder.

Under a City of Toronto by-law, the former Toronto Hydro-Electric Commission and the City of Toronto transferred, at book value, the assets and liabilities (effective July 1, 1999), and transferred the employees (effective January 1, 2000), associated with the generation, distribution, transmission and retailing of electricity and associated business activities, to the new corporations. Certain surplus property assets and cash funds were excluded from the transfer and were retained by the City of Toronto. In addition, the long-term debt incurred by the City of Toronto on behalf of the former Toronto Hydro-Electric Commission was excluded from the liabilities transferred to the new corporations and was retained by the City of Toronto.

On September 26, 2000, wholly-owned subsidiary Toronto Hydro Telecom Inc. ("THTI") was incorporated under the Business Corporations Act (Ontario). On December 21, 2000, wholly-owned subsidiary 1455948 Ontario Inc. was incorporated under the Business Corporations Act (Ontario). At December 31, 2001, THC oversees the operations of THESL, a regulated electricity distribution company, THESI, a competitive retail services company, THTI, a telecommunications company, and 1455948 Ontario Inc., a holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board ("OEB") in the handbook "Accounting Procedures Handbook for Electric Distribution Utilities", and reflect the significant accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of THC and its subsidiaries. THC accounts for its interests in the EBT Express Joint Venture using the proportionate consolidation method. All significant intercompany balances have been eliminated.

Rate setting

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers.

In its capacity to approve or fixed rates, the OEB has specified the following regulatory treatments that have resulted in accounting treatments differing from Canadian GAAP for enterprises operating in a non-regulated environment i.e. for THESL portion of these amounts:

(a) Costs incurred to align systems and practices with the requirements of the future competitive electricity market in Ontario (Transition costs or Market Ready costs) have been deferred in accordance with the criteria set out in the OEB's Electricity Distribution Rate Handbook and the Accounting Procedures Handbook for Electric Distribution Utilities. Under such regulation, certain costs are allowed to be deferred that would be expensed when incurred under GAAP (see accounting policy "Deferred Transition Costs"). THC through THESL will apply for the recovery of these costs in accordance with the guidelines and timetable for this process to be established by the OEB.

(b) The Company provides for payments in lieu of corporate income taxes relating to its regulated business using the taxes payable method as directed by the OEB.

Cash and cash equivalents

Cash equivalents are highly liquid investments with maturities of three months or less from their date of acquisition.

Inventories

Inventories consist principally of maintenance and construction materials and are stated at the lower of cost and replacement cost, with cost determined on a standard cost basis.

Capital assets and depreciation

Capital assets are stated at cost and are removed from the accounts at the end of their estimated average service lives, except in those instances where specific identification allows their removal at retirement or disposition. Gains or losses at retirement or disposition of such assets are credited or charged to other income.

Depreciation is provided on a straight-line basis for capital assets over their estimated service lives at the following annual rates:

Buildings	1.7% to 10.0%
Land rights	2.0%
Distribution stations	2.9% to 5.0%
Distribution lines – overhead and underground	2.5% to 4.0%
Distribution transformers	3.3% to 4.0%
Distribution meters	2.9% to 4.0%
Other capital assets	6.7% to 25.0%
Computer software	14.0% to 33.0%

Deferred business development costs, net of amortization

Included in other assets are unamortized deferred business development costs, consisting of costs incurred for new businesses prior to the commencement of commercial operations. The deferral of expenditures will cease once the businesses are ready to commence commercial operations and will be amortized on a straight-line basis over three years. The amortization of these costs will begin on either the date of market opening or the commencement of the related commercial operations.

Workplace Safety and Insurance Act

To December 31, 2001, THC was self-insured for workers' compensation under the Workplace Safety and Insurance Act ("WSIA"). The costs were charged to income as incurred and paid by THESL. At prior year-end dates, THC recognized in its financial statements the actuarial value of the employees' permanent disability liability. Effective January 1, 2002, the Workplace Safety & Insurance Board ("WSIB") change in coverage requires THC to transfer from Schedule 2, a self-insured employer, to Schedule 1, an employer that is required to participate in the collective liability scheme and pay annual premiums into the insurance fund established under the WSIA *(note 13)*. THC recognizes the expense related to this as contributions are made.

Pension plan

THC provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the "Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund *(note 9)*. THC recognizes the expense related to this plan as contributions are made.

Provision for environmental costs

THC will incur future costs associated with the disposal of contaminated waste and site restoration for certain of its properties. Although these costs cannot be reasonably determined for some of the properties at this time, a contingent liability exists. When reasonably determinable, THC has provided for future costs, net of expected recoveries, by charges to income. Actual costs are charged to the provision for environmental costs liability as incurred.

THC analyzes the costs of its obligations arising from environmental matters on an ongoing basis. The ultimate resolution of future environmental matters is not expected to have a material adverse effect upon the financial position or results of operations of THC.

Revenue recognition

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last meter reading date to the end of the year are recorded as unbilled revenue.

Other post-employment benefits

Employee future benefits provided by THC include medical and life insurance benefits, accumulated sick leave credits and voluntary exit incentive program liability. These plans provide benefits to certain employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render the services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefit method pro rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains (losses) are amortized into expense on a straight line basis over the average remaining service period of active employees to full eligibility. The effects of a curtailment gain or loss are recognized in income in the year of the event giving rise to the curtailment. The effects of a settlement gain or loss are recognized in income for the period in which a settlement occurs.

Contributions in aid of construction

Effective January 1, 2000, THC prospectively adopted the change in accounting policy for contributions received in aid of construction (contributed capital), as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". Capital contributions are required contributions received from outside sources, used to finance additions to capital assets. Capital contributions received after January 1, 2000 are treated as a "credit" contra account included in the determination of capital assets. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the depreciation of the related capital assets. Capital contributions received for capital assets prior to January 1, 2000 were treated as contributed capital, a permanent component of equity which was not amortized.

Customers' advance deposits

Customers' advance deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

Deferred transition costs

THC has incurred costs related to the transition to a competitive electricity market mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs which qualify for deferral and amortization against future revenue. To the extent that transition costs have been incurred which do not qualify for deferral, these costs have been expensed during the period they were incurred.

Transition costs which are capital in nature, such as computer software, are accounted for as part of capital assets. These assets are initially recorded as part of construction in progress until placed into service. Once completed, the costs will be transferred to a deferred transition cost account and amortization will commence with the amortization charge recorded to the deferred transition cost account.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Actual results could differ from estimates.

Corporate risk policy

At the end of 2000, THESI's Board of Directors approved a Risk Policy establishing the risk culture and standards for the energy commodity business. The Risk Policy will serve as the decisive governance document for all at-risk activities of THESI.

Derivatives and hedge accounting

THC is exposed, through signed contracts and binding offers to supply natural gas and electricity to retail customers at fixed prices (the hedged items), to changes in the market prices of natural gas and electricity *(note 16)*. The Company's policy is to hedge these price risks by entering into offsetting contracts for the purchase of natural gas and electricity at fixed prices (the "hedging items"). The Company has designated the relationships between these offsetting signed contracts and binding offers and designated purchase contracts to be hedging relationships.

THC assesses the effectiveness of and manages the hedging relationships daily by quantifying and aggregating the price, term and volume components of the risks, and applying aggregate risk limits for mark-to-market losses and volumes. The effectiveness of the hedging relationships is assured by matching the terms of the hedging items with those of the aggregated hedged items.

The Company has applied hedge accounting to these hedging relationships, whereby it defers any gains, losses, revenue or expenses associated with the hedging items, and recognizes them in income in the same periods as the corresponding gains, losses, revenue or expenses associated with the related hedged items. If the actual commitments to deliver natural gas and electricity are less than the amount hedged through offsetting purchase contracts, gains, losses, revenue or expenses associated with the offsetting hedge that were deferred previously are recognized in the current year's income.

In addition to the above hedging contracts, as opportunities arise, THESI can enter into forward contracts for the purchase and sale of gas for trading gains. THESI can participate in speculative trading of wholesale energy markets for the primary purpose of price discovery, arbitrage, and access to market liquidity within the aggregate risk perimeters and limit defined in the risk policy. Open positions are marked to market each month. When the contract is settled no future gains and losses are recorded.

Corporate income taxes and capital taxes

The current tax-exempt status of the Company and its subsidiaries under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly-owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments in lieu of corporate taxes ("PILs") to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

As a result of becoming subject to PILs, the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

In addition, the Company adopted for its non-regulated businesses the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to accounting for income taxes. Under these recommendations, the liability method of tax allocation is used in accounting for income taxes for non-regulated businesses and future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to be reversed. In prior years, as noted above, the Company was exempt from both corporate income taxes and PILs. Future tax expense was based on items of income and expense that will be reported in the financial statements in a different year than they will be reported in the tax returns and measured at the tax rate in effect in the year the difference is expected to be reversed. The adoption of this recommendation has been applied on a cumulative retroactive basis without restatement of individual prior years. The effect of adopting the liability method of tax allocation on retained earnings was an adjustment of $36,164,000.

The Company provides for PILs relating to its regulated businesses using the taxes payable method as permitted by the OEB and CICA. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the regulated business at that time.

Therefore, in addition to these amounts of future income taxes, an asset of $213,450,000 relating to the regulated business has not been recorded in the accounts as they are expected to be recovered through future revenue.

3. CAPITAL ASSETS

Capital assets consist of the following:

	2001			2000		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Land	**$ 5,977**	**$ –**	**$ 5,977**	$ 5,977	$ –	$ 5,977
Land rights	**9,884**	**1,021**	**8,863**	9,808	825	8,983
Buildings	**145,476**	**32,882**	**112,594**	134,629	28,190	106,439
Distribution stations	**160,332**	**74,440**	**85,892**	149,077	66,383	82,694
Distribution lines – overhead and underground	**1,704,568**	**664,176**	**1,040,392**	1,631,753	602,910	1,028,843
Distribution transformers	**391,169**	**186,778**	**204,391**	379,644	173,197	206,447
Distribution meters	**112,674**	**58,786**	**53,888**	109,746	54,472	55,274
Other capital assets	**184,517**	**124,121**	**60,396**	200,615	144,655	55,960
Computer software	**104,671**	**23,634**	**81,037**	74,999	19,186	55,813
	$ 2,819,268	**$ 1,165,838**	**$ 1,653,430**	$ 2,696,248	$ 1,089,818	$ 1,606,430

4. OTHER ASSETS

Other assets consist of the following:

	2001	2000
Deferred business development costs, net of amortization ($137)	**$ 13,247**	$ 4,303
Long-term recoverable	**–**	1,667
Collateral deposits, for standby letters of credit	**6,400**	–
Long-term advances and deposits	**2,768**	2,736
Other	**1,464**	1,807
	$ 23,879	$ 10,513

5. RELATED PARTY TRANSACTIONS

During 2001, THC provided street lighting energy, and street lighting maintenance and services to the City of Toronto, in the amounts of $7,386,000 and $5,727,000, respectively (2000 – $7,367,000 and $4,641,000, respectively). Transactions between THC and the City of Toronto are in the normal course of business.

At December 31, 2001, long-term notes payable in the amount of $980,231,000 are payable to the City of Toronto (parent company to THC). In 2001, interest expense on the long-term notes payable of $41,884,000 was paid to the City of Toronto.

During 2001, THC provided value added services to the City of Toronto in the amount of $161,000 in the normal course of business.

6. BANKERS' ACCEPTANCES AND BANK INDEBTEDNESS

Short-term bank lines of credit are available to THC in the amount of $104,000,000 (2000 – $104,000,000) of which $58,545,000 was utilized at December 31, 2001, in the form of bankers' acceptances ("BAs") of $25,000,000 and bank indebtedness of $33,545,000 (2000 – bank indebtedness – $15,298,000). The lines of credit are unsecured and bear interest for BAs at the bank's posted BAs rate which at December 31, 2001 was 2.47%, and for bank indebtedness at rates varying from the prime rate less 1/2% to the prime rate of a Canadian chartered bank. Prime at December 31, 2001 was 4.0% (2000 – 7.5%).

7. CURRENT PORTION OF OTHER LONG-TERM LIABILITIES

	2001	2000
Customers' advance deposits	$ 7,198	$ 6,556
Provision for environmental costs	1,945	1,570
Workers' compensation benefits	–	506
	$ 9,143	$ 8,632

8. LONG-TERM NOTES PAYABLE

Long-term notes payable consist of the following:

	2001	2000
Long-term notes payable	$ 980,231	$ 980,231

The long-term notes are payable to the City of Toronto. The City of Toronto reduced the interest payable under the notes in 2001 and 2000 to bring payments into line with the electricity distribution rate increase approved by the OEB effective December 1, 2000 which represented one-third of the incremental revenue necessary to achieve the 9.88% target return on equity requested by THESI in its initial rate application. The notes payable were restructured January 1, 2002, to bear interest at an effective annual rate of 6.8%, with interest payable quarterly and maturity the earlier of demand by the City of Toronto and December 31, 2003.

9. PENSION PLAN

THC did not incur service pension costs for the year ended December 31, 2001 (2000 – nil). Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no Company or employee pension contributions required until after June 30, 2002. OMERS contributions are expected to resume no sooner than July 1, 2002 and will be phased in over three years and will start at one-third of their normal rate.

10. OTHER POST-EMPLOYMENT BENEFIT PLANS

THC has a number of unfunded benefit plans providing other retirement and post-employment benefits (excluding pensions) to most of its employees.

(a) **Medical and life insurance benefits**

THC pays certain medical and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees.

(b) **Accumulated sick leave credits**

THC pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination, or death of certain employees.

(c) **Voluntary exit incentive program liability**

In October 1994, the former Toronto Hydro-Electric Commission introduced the voluntary exit incentive program to eligible employees. Certain employees receive a retirement supplement payment over the term of their retirement and the life of any surviving spouse.

Information about THC's defined benefit plans is as follows:

	Notes	2001	2000
Accrued benefit obligation			
Balance, beginning of year		**$ 109,216**	$ 105,680
Current service cost		**2,932**	1,539
Interest cost		**6,129**	6,932
Actuarial gains		**(582)**	(175)
Plan amendments		**(116)**	(2)
Benefits paid		**(6,452)**	(4,758)
Curtailment gain from VSP/VRP program	11	**(7,230)**	–
Balance, end of year		**$ 103,897**	$ 109,216
Projected accrued benefit obligation at December 31		**$ 94,248**	$ 89,434
Unamortized actuarial gain		**$ 9,649**	$ 19,782

	2001	2000
Components for net periodic benefit cost		
Service cost	**$ 2,932**	$ 1,539
Interest cost	**6,129**	6,932
Amortization of July 1, 2000 amendment	**(336)**	(2)
Amortization of January 1, 2001 amendment	**220**	–
Amortization of experience (gains) losses	**(582)**	(175)
Effect of curtailment	**(7,230)**	–
Net periodic benefit cost	**1,133**	8,294
Capitalized as part of the cost of capital assets	**419**	3,069
Charged to operations	**$ 714**	$ 5,225

	2001	2000
Effect of 1% increase in health care cost trends on:		
Accrued benefit obligation, December 31	$ 7,522	$ 5,636
Net periodic benefit cost	$ 213	$ 105
Effect of 1% decrease in health care cost trends on:		
Accrued benefit obligation, December 31	$ (6,120)	$ (4,659)
Net periodic benefit cost	$ (168)	$ (77)

The significant actuarial assumptions adopted in measuring the accrued obligations are as follows:

	2001	2000
Discount rate		
Accrued benefit obligation at December 31	6.5%	6.5%
Projected accrued benefit obligation at December 31	6.5%	7.0%
Salary levels		
Future general salary and wage levels increase	4.0%	4.5%
Dental costs		
Dental costs increase	4.5%	5.0%

Medical costs

For December 31, 2001, medical costs were assumed to increase at 12% in 2002 graded down by 1.6% annual decrements to 4.0% in 2007 and thereafter.

For December 31, 2000, medical costs were assumed to increase at 12% in 2001 graded down by 1.6% annual decrements to 4.0% in 2004, plus basic price inflation of 3.0%.

11. VOLUNTARY SEPARATION AND RETIREMENT PROGRAM

In June 2001, THC introduced an employee downsizing program to eligible employees, involving a voluntary separation and retirement ("VSP/VRP") program (the "program"). Employees were required to apply for the program by August 3, 2001. Under the program, THC has incurred a total expense of $22,731,000 which has been recognized at December 31, 2001. This expense also includes the cost of some limited target buy-out and involuntary severance.

Of the program's total cost of $22,731,000, $29,961,000 represents the cost of lump-sum termination incentive payments to employees, offset by the $7,230,000 savings in the reduction of the Company's liability for employee future benefits, as a result of a curtailment gain *(see note 10)*. The reduction in employees has reduced THC's balance sheet "other post-employment benefits liability" by $7,230,000, as a result of the future benefits that are no longer payable to certain employees terminating under the program. At December 31, 2001, the termination accrual amounted to $12,904,000.

12. PROCEEDS FROM SETTLEMENT OF CLASS ACTION

During 2001, THC received $7,779,800 representing their pro-rata share of the proceeds from the settlement in the class action against the former Ontario Hydro ("OPG"). The Municipal Electric Association's ("MEA") member utilities launched the lawsuit in 1997. The lawsuit dealt primarily with three of Ontario Hydro's special rates and subsidies for its large industrial customers and asserted that municipal electric utilities and their customers were being forced to pay higher rates in order to fund these subsidies. During 2001, the lawsuit was brought to a successful conclusion after court approval of a settlement with OPG.

(all tabular amounts in thousands of dollars)

December 31, 2001

13. SETTLEMENT GAIN – WORKPLACE SAFETY & INSURANCE BOARD

To December 31, 2001, THC was self-insured for Workers' Compensation benefits ("Schedule 2") under the WSIA. Under WSIB regulations, the past change in THC's legal and organizational structure to corporations under the Business Corporations Act (Ontario) alters its coverage status. Effective January 1, 2002, the WSIB change in coverage requires THC to transfer from a self-insured employer (Schedule 2) to Schedule 1, an employer that is required to participate in the collective liability scheme and pay annual premiums into the insurance fund established under the WSIA.

On December 31, 2001, as stipulated by WSIB, THC made a one-time lump sum payment of $1,794,500 to discharge its Schedule 2 accrued benefit obligation liability (the "liability"). As a result of this transaction, the liability at December 31, 2001 of $4,883,400 was eliminated and a settlement gain was recognized in income in the amount of $3,088,900.

14. CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is provided as follows:

Statement of earnings

	2001
Rate reconciliation	
Income from continuing operations before income taxes	$ 11,774
Statutory Canadian federal and provincial income tax rate	40.62%
Expected taxes on income	4,783
Non-taxable pre-October 1, 2001 income	(22,289)
Increase in income taxes resulting from	
Large corporations tax net of surtax	530
Effect of rate changes on timing differences	4,370
Non-capital loss non-benefited	10,510
Other timing differences non-benefited	(6,987)
Other	9
Income tax expense	$ 330
Effective tax rate	2.87%
Components of income tax expense	
Current tax expense	$ 1,052
Future income tax recovery related to the origination and reversal of temporary differences	(714)
Income tax expense	$ 338

Balance sheet

Significant components of the Company's future income tax assets and liabilities are as follows:

	2001
Non-capital loss carry forwards	$ 918
Capital assets	22,207
Intangibles	13,407
Other taxable temporary differences	344
	$ 36,876
Presented in the balance sheet as follows	
Assets, current	$ 417
Assets, long-term	37,058
Liabilities, long-term	(599)
	$ 36,876

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 2001, future income tax assets of $225,356,000 based on substantively enacted income tax rates, have not been recorded.

15. LEASE COMMITMENTS

THC is committed to future minimum annual lease payments under operating leases with remaining lease terms between one to 10 years as follows:

	$
2002	2,600
2003	1,355
2004	709
2005	532
2006	507
Thereafter	2,397
	8,100

16. FINANCIAL INSTRUMENTS AND RETAIL COMMITMENTS

Energy retailing

THC has established a hedge program for its electricity business and has entered into various contracts to hedge its market risk exposure upon Open Access when THC will sell electricity at fixed rates to customers and purchase wholesale electricity at variable rates. THC has entered into physical bilateral contracts and swap contracts (pay fixed, receive floating) with generators and power marketers to hedge the price risk inherent in retailing power. Electricity shall be supplied to customers at a fixed price per kilowatt hour, to commence on the date the electricity market opens. Based on management's best estimates of the electricity forward price curve, the fair value marked to market of the electricity contracts is not material.

During 2001, THC has entered into a number of long-term gas purchase and transportation contracts in the normal course of business to supply natural gas to its retail customers.

The commitments for electricity and gas for the period January 1, 2001 to December 31, 2005 totals $814,000,000 and relates to the volume of 14,848 Gwh of electricity and 36 million Gj's of gas.

During 2001, THC realized trading gains for the purchase and sale of gas which amounted to $949,000. The notional volume of the transactions amounted to 6.7 million Gj's with a notional value of $37,000,000.

Credit risk

Financial instruments result in exposure to credit risk, since there is a risk of counter-party default. THC monitors and minimizes credit risk through dealing with highly rated counter-parties. THC has two wholesale counter-parties with the majority of its business concentrated with one marketer. Financial assets expose THC to credit risk. Credit risk is the loss from non-performance by suppliers, customers or financial counterparties. THC provides reserves for credit risk based on the financial condition and short and long-term exposures to counterparties. At December 31, 2001, there are no significant concentrations of credit risk with respect to any class of financial assets.

Fair value of financial instruments

Cash and cash equivalents include approximately $4,068,000 in government notes and bank paper. These investments are of short maturity with a high rating.

The carrying value of short-term financial assets and liabilities approximates their fair value due to the immediate or short term maturity of these financial instruments.

17. CONTINGENCIES

Legal proceedings

A class action claiming $500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The Municipal Electric Association, in cooperation with THC, is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the consolidated financial statements of THC.

18. FINANCIAL GUARANTEES

THC has provided inter-company financial guarantees on behalf of both THESL, its regulated electricity distribution company, and THESI, its competitive retail services company. The financial guarantees are required in the upcoming deregulated market for electricity and for the current deregulated market for gas, to meet the future prudential requirements of the IMO in the event of a default of payment to the IMO after market opening in May 2002, and to provide financial guarantees required by suppliers of electricity and gas.

In February 2001, the City of Toronto (parent company to THC) authorized THC to make available to THESL and THESI financial guarantees totaling $500,000,000. At December 31, 2001, THC's Board of Directors has approved $186,000,000 in financial guarantees on behalf of THESI, of which $75,000,000 has been issued to guaranteed parties. At December 31, 2001, no financial guarantees have been approved by THC's Board of Directors or issued on behalf of THESL.

19. ELECTRIC INDUSTRY RESTRUCTURING AND REGULATION

The Energy Competition Act, 1998 (the "Act") was given Royal Assent on October 30, 1998. The Act provides for a competitive market in the sale of electricity, in addition to the regulation of the monopoly electricity delivery system in the Province of Ontario, by the OEB. The electricity marketplace will be deregulated, and electricity retailers began competing for customers as of March 1, 2000. Electricity retailers, including THESI, cannot begin to sell electricity until the electricity market opening or "Open Access". Open Access commences on the date on which transmitters and distributors are required to provide generators, retailers, and consumers with non-discriminatory access to the transmission and distribution systems in Ontario in accordance with their licences under the Electricity Act, 1998. This date has been determined as May 1, 2002.

The OEB has regulatory authority over the electricity distribution sector. The Act sets out the OEB's powers to issue a distribution licence which must be obtained by any person owning or operating a distribution system under the revised Ontario Energy Board Act, 1998 (the "new OEB Act" – a component of the new Act). The new OEB Act allows the OEB to prescribe licence requirements and conditions to electricity distributors which may include, among other considerations, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate-setting purposes.

20. INTEREST IN EBT EXPRESS JOINT VENTURE

1455948 Ontario Inc. owns a 50% interest in EBT Express Partnership ("EBT Express"), a joint venture formed January 12, 2001 under a partnership agreement with OPG EBT Holding Inc., a wholly-owned subsidiary of Ontario Power Generation Inc.

EBT Express is an electronic business transaction "hub", which will provide centralized electronic data management and transaction services to local distribution companies ("LDCs") and energy retailers. With the opening of Ontario's deregulated electricity market, scheduled for May 1, 2002, consumers will have the opportunity to choose their energy suppliers. The OEB has mandated that all participants in this new energy market use an electronic business transaction. For the purposes of billing, LDCs and retailers will need to send the information back and forth to ensure customers' accounts are accurate. EBT Express will act as the clearing house or hub where transaction information is exchanged.

The Company's consolidated financial statements include its share of the assets, liabilities, revenue, expenses and net loss and cash flows resulting from operating, investing and financing activities of the joint venture, which can be summarized as follows:

	2001
Assets	
Cash	$ 1,693
Notes receivable	610
Other current assets	446
Long-term assets	4,354
	$ 7,103
Liabilities	
Current liabilities	$ 683
Revenue	$ –
Expenses	(2,080)
Net loss	$ (2,080)
Cash flows	
Operating activities	$ (409)
Investing activities	(5,788)
Financing activities	7,890
	$ 1,693

21. SHARE CAPITAL

Share capital consists of the following:

	2001	2000
Authorized		
The authorized share capital consists of an unlimited number of common shares. Any invitation to the public to subscribe for securities of the Company is prohibited.		
Issued and outstanding		
1,000 common shares	567,817	567,817

TORONTO HYDRO CORPORATION

Courtney Pratt

Wanda Liczyk

Maureen Kennedy

Blair Peberdy

Richard Lu

Rick Zebrowski

Connie Woo

Lawrence Wilde

David Scott

Pankaj Sardana

TORONTO HYDRO ELECTRIC SYSTEM LIMITED

John N. Brooks

Peter D'Uva

Susan Davidson

Jim Black

Gordon Galloway

Joe Bailey

Jeff Clark

Bob King

TORONTO HYDRO ENERGY SERVICES INC

Hilda Mackow

Elisa McFarlane

Jean-Sebastien Couillard

Ian Miles

Todd Wilcox

Max Cananzi

Lorna Francis

TORONTO HYDRO CORPORATION

Under the leadership of
Courtney Pratt
President and CEO
Toronto Hydro Corporation
*1 year

and **Wanda Liczyk**
Senior Vice-President-and
Chief Financial Officer
Toronto Hydro Corporation
*11 months

From left to right

Maureen Kennedy
Vice-President
Finance
*4 months

Blair Peberdy
Vice-President
Communications and Public Affairs
*20 years

Richard Lu
Vice-President
Environment, Health & Safety
*4 months

Rick Zebrowski
Vice-President
Regulatory Services
*16 years

Connie Woo
Vice-President and CIO
Information Technology
*25 years

Lawrence Wilde
Vice-President
Legal Services
General Counsel and Corporate
Secretary
*1.5 years

David Scott
Vice-President
Human Resources
*17 years

Pankaj Sardana
Vice-President
Risk Management
Treasurer
*4 months

TORONTO HYDRO ELECTRIC SYSTEM LIMITED

Under the leadership of
John N. Brooks
President and CEO
Toronto Hydro-Electric System
Limited
*29 years

From left to right

Peter D'Uva
Senior Vice-President
Customer Services
*34 years

Susan Davidson
Vice-President
Customer Care
*2.5 years

Jim Black
Senior Vice-President
Distribution Services
*24 years

Gordon Galloway
Controller
*4 months

Joe Bailey
Senior Vice-President
Asset Management
*25 years

Jeff Clark
Vice-President
Supply and Services
*24 years

Absent
Bob King
Vice-President
Business Transformation
*13 years

TORONTO HYDRO ENERGY SERVICES INC.

Under the leadership of
Hilda Mackow
President and CEO
Toronto Hydro Energy Services Inc.
and Toronto Hydro Telecom Inc.
*4 years

From left to right

Elisa McFarlane
Vice-President
Planning and Operations
Toronto Hydro Energy Services Inc.
and Toronto Hydro Telecom Inc.
*1 year

Jean-Sebastien Couillard
Controller
Toronto Hydro Energy Services Inc.
and Toronto Hydro Telecom Inc.
*1.5 months

Ian Miles
Vice-President
Toronto Hydro Telecom Inc.
*10 months

Todd Wilcox
Vice-President
Business to Business and
Citisource™ Design & Construction
*3 years

Max Cananzi
Vice-President
Energy Portfolio Management
and Generation
*13 years

Absent
Lorna Francis
Vice-President
Marketing
Toronto Hydro Energy Services Inc.
and Toronto Hydro Telecom Inc.
*2 years

*years of service in Toronto Hydro Corporation and its affiliates

Doing It Right also applies at the level of our 11-person Board of Directors, composed of eight independent Directors and three City Councillors.

Since its appointment on April 20, 1999 the Board, under the Chairmanship of Clare Copeland, has put in place a system of corporate governance that, as substantially as possible, meets the requirements of private sector organizations. The most widely adopted guidelines for corporate governance in Canada are those established by the Toronto Stock Exchange six years ago. Processes for the nomination and remuneration of Directors, major governance issues, are the exclusive prerogative of the sole Shareholder, the City of Toronto, and are therefore not the responsibility of our Board. In this context, the following outlines the responsibilities of the Board in the other major areas covered by the Toronto Stock Exchange guidelines.

BOARD RESPONSIBILITY

(a) **Strategic planning:** The Board is fully involved with Senior Management and the Shareholder in setting the strategy for the company.

(b) **Identification of principal risks and ensuring implementation of systems to manage these risks:** Through committees and as a whole, the Board devotes considerable attention to risk Management, having approved a risk policy for the retail affiliate, Toronto Hydro Energy Services Inc., as well as approving significant matters relating to risk Management.

(c) **Succession planning:** A new Senior Management team is in place, with succession planning to be renewed in 2002.

(d) **Communications policy for the Corporation:** As the company begins to access the public markets for financing, a more formal policy will be developed.

(e) **Integrity of the Corporation's internal control and Management information systems:** The Board monitors this through its Audit and Corporate Governance Committee with assistance from the company's external auditors.

BOARD COMPOSITION

(a) **The majority of Directors should be "unrelated":** 8 of the 11 Directors of Toronto Hydro's Board are "unrelated".

(b) **Board should examine its size to ensure effectiveness:** At 11 members, the Board considers itself small enough, with the right mix of skills and experience, to promote effectiveness.

BOARD OPERATION

(a) **Requires a process for assessing the effectiveness of the Board as a whole, the committees of the Board, and the contribution of individual Directors:** The Audit and Corporate Governance Committee implemented an independent survey of Board members with respect to Board and Committee operation; the Board Chair meets with each Director to discuss his/her contributions.

(b) **Committees should generally be composed of outside Directors, a majority of whom are unrelated:** There are no Management members on the Board and hence all Committees are composed entirely of outside Directors, and the majority of these Directors are unrelated.

(c) **Board should develop position descriptions for the Board and the CEO:** While these have not been developed in detail, the Board does approve the corporate objectives which the CEO is responsible for meeting.

(d) **Independence from Management:** There are no members of Management on the Board and the Board holds an *in camera* session without any Management present at the conclusion of each meeting.

(e) **Independent Audit and Corporate Governance Committee:** The Audit Committee is composed entirely of unrelated Directors and has direct communication channels with the external auditors; its responsibilities include Management reporting on internal control.

The members of our Board of Directors are on the page opposite. The legend indicates Committee and subsidiary Board participation. The full Board has five regularly scheduled meetings throughout the year; Board committees meet up to five times yearly. The Board has three committees: Audit and Corporate Governance; Environment, Health & Safety; and Compensation. The regulated distribution company, Toronto Hydro-Electric System Limited, has a Board composed of all the Directors of Toronto Hydro Corporation. Our retail subsidiary, Toronto Hydro Energy Services Inc., has a Board composed of five members of the Corporation Board; our telecom subsidiary, Toronto Hydro Telecom Inc., has an oversight committee composed of six members of the Corporation Board and two Management staff members.

Chair Clare R. Copeland ◆ ▼ ■

L. Ross Cullingworth ◆ ▼ ▲

Case Ootes ▼

David M. Williams ◆ ■

Timothy J. Millard ■

Lorenzo Berardinetti

David L. Bumstead ◆ ▼ ▲

Peter Y. Atkinson ●

Dr. Ruth M. Corbin ◆ ▼ ▲

Dr. Frank Frantisak ●

Vice-Chair Jack Layton ◆ ●

Committee Membership

- ◆ Toronto Hydro Energy Services Inc. Board of Directors
- ▼ Toronto Hydro Telecom Inc. Committee
- ▲ Audit and Corporate Governance Committee
- ■ Compensation Committee
- ● Environment, Health & Safety Committee

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left to right

Lorenzo Berardinetti
City Councillor, Ward 37 (Scarborough Centre)
Chair, City of Toronto Administration Committee
Former Chair, City of Toronto Elections
Boundary Task Force
Former Chair, Scarborough Community Council

David L. Bumstead ◆ ▼ ▲
Former Executive Vice-President,
Corporate Development, Noranda Inc.
Former Chair, Rudolph Wolff & Co.
Former Chair, Kerr Addison Mines

Peter Y. Atkinson ●
Executive Vice-President and General Counsel,
Hollinger Inc.
Vice-President, Hollinger International Inc.

left to right

Chair Clare R. Copeland ◆ ▼ ■
Former Chair and CEO, Ontario Store Fixtures
Former President and CEO,
Peoples Jewellers Corporation
Former Chair, Sun Media Corporation
Former Chair, Ontario Place

Case Ootes ▼
Deputy Mayor
City Councillor, Ward 29 (Toronto-Danforth)
Chair, City of Toronto Telecommunications
Steering Committee
Chair (Mayor's Designate),
City of Toronto Striking Committee

Timothy J. Millard ■
President and CEO,
Ontario Forest Industries Association
Former Ontario Deputy Minister of Labour
Former Ontario Deputy Solicitor General
Former Ontario Deputy Minister of
Correctional Services

left to right

L. Ross Cullingworth ◆ ▼ ▲
Consultant and Corporate Director
Former Chair,
CEO of Brookfield Homes Ltd.

David M. Williams ◆ ■
President and CEO,
Workplace Safety & Insurance Board
Chair, Board of Governors,
The Centre for Studies of Children at Risk
Former Executive Vice-President,
George Weston Limited
Former Executive Vice-President,
Loblaw Companies Limited
Former President, National Grocers Co. Ltd.

left to right

Dr. Ruth M. Corbin ◆ ▼ ▲
Vice-Chair, Léger Marketing
CEO, Decision Resources Inc.
Former President, Kroll Canada
Former COO, Angus Reid Group

Dr. Frank Frantisak ●
Partner, Frank Frantisak & Associates
Former Senior Vice-President,
Environmental Services, Noranda Inc.
Order of Canada recipient, 2002

Vice-Chair Jack Layton ◆ ●
City Councillor, Ward 30 (Toronto-Danforth)
Principal, Green Catalyst Group Inc.
President, Federation of Canadian Municipalities
President, Toronto Atmospheric Fund
Faculty member, Geography Department,
University of Toronto

Committee Membership
◆ Toronto Hydro Energy Services Inc. Board of Directors
▼ Toronto Hydro Telecom Inc. Committee
▲ Audit and Corporate Governance Committee
■ Compensation Committee
● Environment, Health & Safety Committee

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